

AR36



annual report 1967

international systcoms limited



FOUNDATION FOR GROWTH

Systcoms objective is to diversify the range of its present product lines and to expand by the acquisition of technologically related companies.

The primary resource of the company is the quality of its people. At Systcoms we try to create an environment in which each individual can realize his full potential.

Our primary skills are technological and administrative. We will concentrate on situations which require these particular capabilities.

The development of Systcoms Century Series of equipments, the continuing high level of research and development expenditures, the association with R. H. Nichols Co. Limited and the more recent undertaking to acquire Progress Balance and Control Ltd. are consistent with this strategy.

Systcoms is an opportunity-oriented company whose goal is the effective management of technology.

Telemetry, control , and communications
consoles for Trinidad and Tobago

annual report

FOR THE YEAR ENDED APRIL 30, 1967.

international systcoms limited

AND CONSOLIDATED SUBSIDIARY COMPANIES

SYSTCOMS LIMITÉE

ELECTRONIC CONSULTANTS LTD

annual report

FOR THE YEAR ENDED APRIL 30, 1967.

R.H. Nichols
CO. LTD.

FINANCIAL HIGHLIGHTS

year ended April 30, 1967.

	SYSTCOMS	NICHOLS
SALES	920,145	2,480,937
WORKING CAPITAL	196,612	455,172
NET INCOME	34,355	191,747
RESEARCH AND ENGINEERING	154,007	204,531
NUMBER OF SHARES OUTSTANDING	967,016*	—

*includes 21,580 shares allotted but unissued.

INTERNATIONAL SYSTCOMS LIMITED

DIRECTORS

E.R. ALEXANDER JR.
R.G. BREMNER
J.E. CONNER
J.W. DOBSON
C.L. HUSTON
J.J. KINGAN
F.J. LOOKER
J.J. TURNER

OFFICERS

J.E. CONNER PRESIDENT
F.J. LOOKER VICE PRES
J.C. CREBBIN SECY-TREAS

TO OUR SHAREHOLDERS

The year ended April 30th 1967 was one of continuing progress at Systcoms. During the year a great deal of management effort was concentrated upon the affairs of R.H. Nichols Co. Limited, and considerable reference to Nichols is made later in this report.

At Systcoms engineering was completed on the new Century Series of mobile, base station and portable radio telephone equipment. This represents the culmination of a research and development program which was initiated more than three years ago and has required an investment in excess of \$400,000. The first units of this equipment were produced in April and the results of this program will only become apparent in the current year.

Effective management control of Nichols was achieved in March last year and Systcoms subsequently elected to exercise its option to acquire the issued and outstanding shares of Nichols. The 21,580 common shares of Systcoms shown on the balance sheet as allotted but unissued have been provided for this purpose.

Nichols designs and manufactures control equipment for the power utility, transportation and communication industries. Prior to February 1966 the company made a substantial venture into electronic control systems, the costs of which exceeded, by far, the estimates of the management.

During the year Nichols has been re-organized and the finances of the company have been restructured. The alarming and disastrous loss pattern has not only been arrested but a substantial profit is shown in the accounts of Nichols.

The affairs of Nichols have commanded considerable attention from Systcoms management and it would appear that such efforts were expended in a manner which serves the best long range interests of Systcoms. It is anticipated that circumstances at Nichols will permit an early termination of the receivership and that the loss carry forward of more than \$800,000 will be of considerable significance.

During the year Nichols will have available for sale new modular computerized digital control equipment and several related products including telemetry devices and power supplies. The pace of activity in the agency field is being increased by the addition of medical electronic equipment for which it is believed a substantial market exists.

Systcoms will produce several new models of V.H.F. radio telephone equipment as the basic modules of the Century Series are adapted for the particular needs of the market. Most significant are the practical possibilities of utilizing the circuitry for improved rural radio telephone service and for the development of personal portable telephone equipment.

Systcoms has recently entered into an arrangement whereby it has an option to acquire all of the issued and outstanding shares of Progress Balance and Control Ltd. Progress Balance produces analog type automatic control equipment for industry. The process control field is closely related technologically to present activities of the company and the market for such equipment is growing rapidly.

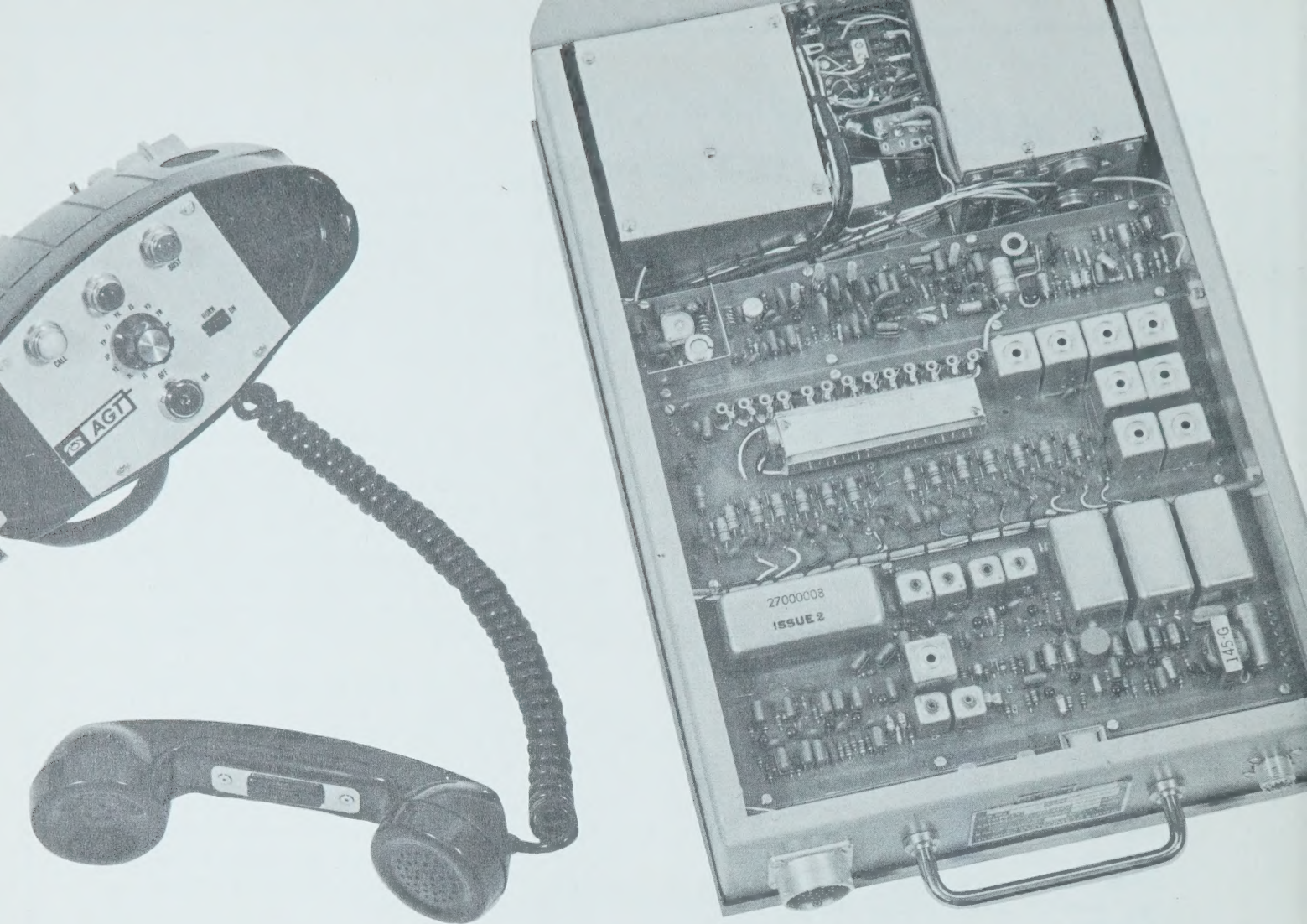
Shipments and orders booked during the first quarter of the current year at Nichols, Systcoms and Progress are all substantially ahead of the same period last year.

The company has recently received from Mr. John J. Kingan a notice that he will be unable to continue as a director due to ill-health. Mr. Kingan's resignation has been accepted with regret and his fellow directors wish to express their gratitude for his services and to pay tribute to his role as the founder of the company.

The past year has been a rigorous test of the capabilities of the company and the achievements should provide a firm base for future growth. The company wishes to acknowledge with sincere thanks the efforts of its employees to whom credit for the accomplishments of the past year can be attributed.

Respectfully submitted,

J. E. Conner.



SYSTCOMS PRODUCTS AND MARKETS

The electronic products of International Systcoms are specifically designed to serve the professional communications markets which include the telephone companies, utilities and government agencies.

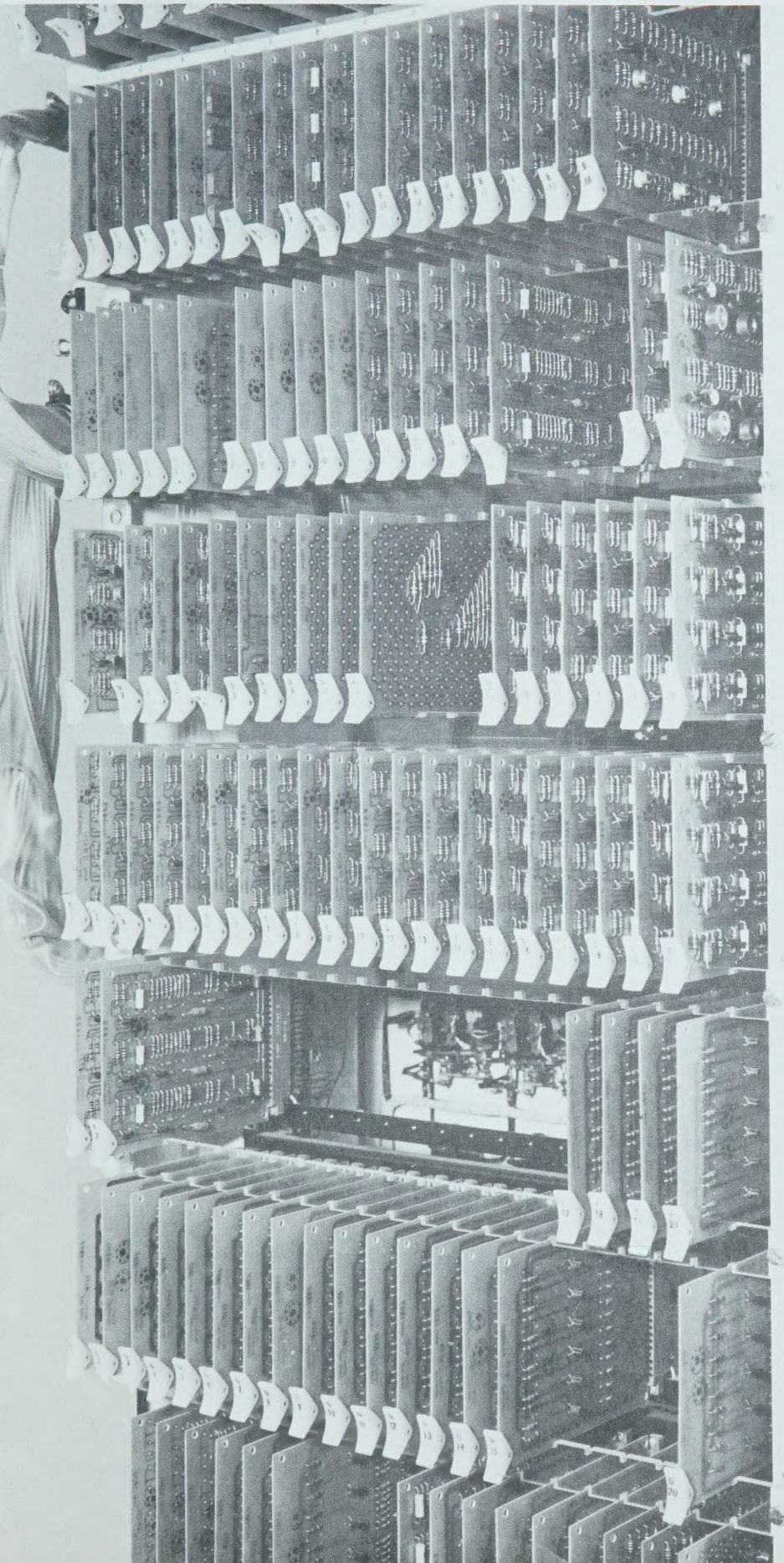
The company has specialized in the development and design of V.H.F. mobile radio telephone equipment and ancillary products such as digital and tone encoders and decoders, professional base stations, remote control equipment and associated test instruments.

The trend toward the use of totally solid state

equipment opens market opportunities for which the new Systcoms Century Series has been developed and brought into production. Systcoms will have several new completely transistorized models available for the market during the coming year.

The completion of this major research and development program will permit the Company to further diversify its product lines; to add to agency services, and to expand to serve the rapidly growing markets in Canada and the United States.

NICHOLS PRODUCTS AND MARKETS



R.H. Nichols Company Limited designs, builds and markets products and systems for the measurement, control and processing of energy and materials. Nichols origins date back more than half a century.

Nichols is the foremost supplier of remote supervisory control and telemetering equipment in Canada. Over two thirds of the supervisory control systems in Canadian service are Nichols designed and built. Nichols is also a major exporter of equipment.

Nichols systems reflect the constant influence of new concepts and techniques. New modular systems require accurate high speed data transmission; effective assimilation and display of information, and reliable control of operations. The more advanced systems perform computer functions or integrate with on-line computers.

The market for supervisory control systems is constantly expanding as new applications are developed and as present systems adopt more sophisticated automation techniques.

Our objective at Nichols is to keep pace with the rapid growth of the market and to maintain a position of technological leadership.

Modular solid-state supervisory control equipment custom designed by Nichols

INTERNATIONAL
(PUBLIC COMPANY UNDER THE
AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT

Cash on hand and in bank		5,204	
Accounts receivable - Trade	198,433		
- Other	<u>31,000</u>	229,433	
Inventories (Note 2)		432,457	
Prepaid expenses		<u>3,882</u>	670,976

**INVESTMENT IN AND ADVANCES TO
R. H. NICHOLS CO. LIMITED (Note 3)**

Common shares		21,580	
Advances		<u>230,000</u>	251,580

FIXED - At cost

Machinery and equipment	59,700		
Less: Accumulated depreciation	<u>8,983</u>	50,717	
Furniture and fixtures	10,810		
Less: Accumulated depreciation	<u>1,129</u>	<u>9,681</u>	60,398

OTHER

Manufacturing licenses and designs (Note 4)		298,035	
Leasehold improvements	4,753		
Less: Accumulated amortization	<u>2,852</u>	1,901	
Incorporation expenses		<u>3,143</u>	303,079
			<u>1,286,033</u>

SIGNED ON BEHALF OF THE BOARD
DIRECTOR J.E. Connor
DIRECTOR F.J. Looker

STCOMS LIMITED
(CANADA CORPORATIONS ACT)
COMPANIES (NOTE 1)
STATEMENT AS AT APRIL 30, 1967

LIABILITIES

CURRENT

Bank loan (secured)	220,000	
Accounts payable and accrued charges	203,943	
Income taxes payable	32,421	
Current portion of deferred liabilities	<u>18,000</u>	474,364

DEFERRED (Note 5)		325,500
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SHAREHOLDERS' EQUITY

Capital stock (Note 6)

Authorized: 5,000 5% Redeemable preferred shares
of a par value of \$100.00 each

1,000,000 Common shares of no par value

Issued: 945,436 Common shares as at May 1, 1966 469,089

Allotted, but
unissued: 21,580 Common shares at a stated value
of \$1.00 each (Note 3) 21,580

967,016 490,669

Deficit - Per statement attached (4,500) 486,169

\$1,286,033

INTERNATIONAL SYSTCOMS LIMITED

CONSOLIDATED STATEMENT OF INCOME YEAR ENDED APRIL 30, 1967

SALES		920,145
COST OF SALES		<u>688,814</u>
GROSS PROFIT		231,331
Less: Selling expenses	81,844	
Administrative expenses	96,723	
Interest on long-term debt	16,324	
Provision for income taxes	<u>8,085</u>	
	202,976	
Less: Gain on disposal of investment	<u>6,000</u>	<u>196,976</u>
NET INCOME FOR THE YEAR		<u>\$34,355</u>

CONSOLIDATED STATEMENT OF DEFICIT YEAR ENDED APRIL 30, 1967

BALANCE AT DEBIT - May 1, 1966	38,855
Less: Net income for the year	<u>34,355</u>
BALANCE AT DEBIT - April 30, 1967	<u>\$4,500</u>

THE ACCOMPANYING EXPLANATORY NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have examined the accompanying consolidated balance sheet of International Systcoms Limited and its subsidiary companies as at April 30, 1967 and the consolidated statements of income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income and deficit present fairly the financial position of the company and its subsidiary companies as at April 30, 1967 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

WEIR, DUNCAN & CO.
Chartered Accountants

Montreal,
August 3, 1967.

INTERNATIONAL SYSTCOMS LIMITED

NOTES TO ACCOMPANY CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 1967

1. The consolidated financial statements include the accounts of the company's wholly-owned subsidiary companies: Electronic Consultants Limited, and Syst-coms Limitee, which were incorporated on February 21, 1963 and December 5, 1963 respectively and have been subsidiaries of the company since their respective dates of incorporation.

2. Consolidated inventories have been valued at the lower of cost or net realizable value and are made up as follows:

Finished goods	\$131,300
Work in process	73,953
Raw materials	227,204
	<u>\$432,457</u>

3. On February 23, 1966 the company entered into an option agreement whereby it obtained the right to acquire, until May 31, 1968, all of the issued and outstanding common shares of R.H. Nichols Co. Limited for a purchase consideration of 21,580 common shares. On April 19, 1967 the company elected to take up its option and initiated the necessary legal proceedings in this regard. The purchase consideration is to be issued at a stated value of \$1.00 per share. Issuance of these shares awaits receipt of clearance from the Quebec Securities Commission.

The company has also undertaken to purchase \$13,450. of redeemable participating second preference shares of R.H. Nichols Co. Limited.

On March 23, 1966 R.H. Nichols Co. Limited was put into Receiver-Managerhip. This procedure has enabled it to arrange for the future orderly retirement of its obligations as at that date.

Advances to R.H. Nichols Co. Limited in the amount of \$230,000. are subject to postponement of repayment in favour of that company's bankers.

The company has guaranteed certain payments which are required to be made by R.H. Nichols Co. Limited to its unsecured creditors as at March 23, 1966 aggregating \$7,681.

4. In accordance with the practice of prior years, all current charges to Manufacturing Licenses and Designs, in the amount of \$154,007. have been deferred and will be expensed in the accounts in the year to be ended April 30, 1969. Accordingly, the year under review has been charged with such costs incurred in the year ended April 30, 1965 amounting to \$97,593.

5. DEFERRED LIABILITIES

7% Loans payable - Due in monthly instalments of \$1,500. from May 23, 1967 to May 23, 1968 and thereafter in monthly instalments of \$500. to November 23, 1968

22,500

Less: Current instalments, included in current liabilities

18,000

4,500

7 1/2% Notes payable (to be replaced by an obligation more fixed in nature)

261,000

8% Notes payable (subject to postponement of repayment in favour of Industrial Development Bank)

60,000

\$325,500

6. The following options to purchase common shares were outstanding as at April 30, 1967:

10,000 shares at 25¢ each

10,000 shares at 50¢ each

25,000 shares at a price per share which shall be the lesser of:

(a) Six times the consolidated net profits after tax of the company for the fiscal period immediately preceding the time of the exercise of the option referred to in note 3 divided by the number of shares of the company then outstanding; or,

(b) 80% of the market value of one share of the company at the time of the exercise of the option referred to in note 3.

The above option is exercisable within a period of twenty-four months after issuance of 21,580 common shares shown on the balance sheet as "Allotted, but unissued".

The company proposes to request the issue of supplementary letters patent under which 500,000 new common shares of no par value will be created ranking pari passu in all respects with the existing common shares.

The provisions of the trust deed governing the loan payable to Industrial Development Bank restrict the payment of dividends on the company's capital stock.

7. Depreciation provided during the year totalled \$8,151. Executive salaries paid to directors as officers during the year amounted to \$24,145.

8. Rentals payable under lease contracts for equipment for the years 1967 to 1970 inclusive total \$16,524.

9. Life insurance is maintained in the amounts of \$80,000. and \$15,000. on the lives of J.E. Conner and F.J. Looker respectively payable to the company in the event of death and has been pledged as collateral security to the company's bankers.

10. On May 26, 1967 the company concluded an agreement whereby it has an option to purchase within a twelve month period all of the issued and outstanding shares of Progress Balance and Control Ltd. The purchase consideration is payable in a sufficient number of common shares of the company to have a value equivalent to \$15,000. at the time of exercise of the option. The price of said shares will be based on the average closing price of the company's shares for the 30 day period preceding the exercise date.

In the event that the company does not exercise its option within the time specified a penalty payment of \$5,000. is required to be made to Progress Balance and Control Ltd.

R.H. NICHOLS
(INCORPORATED UNDER THE LAWS
BALANCE SHEET AS

ASSETS

CURRENT

Cash on hand and in bank			13,870	
Accounts receivable - Trade (Note 2)	824,589			
- Recoverable expenses	<u>14,047</u>	838,636		
Inventories - At the lower of cost or net realizable value				
Work in process and finished goods	287,941			
Raw material	<u>121,610</u>	409,551		
Goods in transit		<u>80,742</u>	490,293	
Deposits			37,787	
Prepaid expenses			<u>1,048</u>	1,381,634

SPECIAL REFUNDABLE TAX

9,393

FIXED - At cost

Machinery and equipment	109,548			
Less: Accumulated depreciation	<u>74,539</u>	35,009		
Furniture and fixtures	37,454			
Less: Accumulated depreciation	<u>31,925</u>	<u>5,529</u>	40,538	

OTHER

Leasehold improvements - At cost			9,871	
Less: Accumulated amortization			<u>3,233</u>	6,638

\$1,438,203

SIGNED ON BEHALF OF THE BOARD

DIRECTOR J.E. Conner

DIRECTOR F.J. Looker

D. LIMITED

THE PROVINCE OF ONTARIO)

T APRIL 30, 1967

LIABILITIES

CURRENT

Bank loan (secured)	398,800	
Accounts payable and accrued charges	466,962	
Special refundable tax payable	9,393	
Balance of preferred liabilities incurred prior to the Receivership (Note 3)	<u>51,307</u>	926,462

OTHER

Advances from International Systcoms Limited (payment postponed in favour of the bank)		230,000
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CAPITAL STOCK AND DEFICIT

Capital stock

Authorized: (Notes 3 and 4)

6,836 6% Non-cumulative (except as described in Note 4)
redeemable first preference shares of a par
value of \$50.00 each

14,000 Redeemable participating second preference shares
of a par value of \$50.00 each

50,000 Common shares of no par value

Allotted, but unissued: (Note 3)

6,836 First preference shares, in respect of a
secured liability 341,800

11,377 Second preference shares, in satisfaction of
unsecured liabilities pursuant to the terms of
of a proposal (Note 3) 568,850

910,650

Issued:

5,395 Common shares 178,983

1,089,633

Deficit

Contributed surplus - Per statement attached 3,478

Deficit incurred on operations - Per statement
attached (811,370) (807,892) 281,741

\$1,438,203

R.H. NICHOLS CO. LIMITED

STATEMENT OF INCOME YEAR ENDED APRIL 30, 1967

SALES		2,480,937
COST OF SALES (Note 6)		<u>1,938,089</u>
GROSS PROFIT		542,848
Less: Selling expenses	172,035	
Administrative expenses (Note 5)	<u>179,068</u>	<u>351,103</u>
NET INCOME FOR THE YEAR (Subject to the conditions set out in Note 4)		<u>\$191,745</u>

STATEMENT OF DEFICIT YEAR ENDED APRIL 30, 1967

Estimated balance at debit, May 1, 1966 (Note 6)	1,003,115
Less: Net income for the year (Subject to the conditions set out in Note 4)	<u>191,745</u>
Balance at debit, April 30, 1967	<u>\$811,370</u>

STATEMENT OF CONTRIBUTED SURPLUS YEAR ENDED APRIL 30, 1967

Balance at credit, May 1, 1966	3,478
(No change during the year)	<u>NIL</u>
Balance at credit, April 30, 1967	<u>\$3,478</u>

THE ACCOMPANYING EXPLANATORY NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the accompanying balance sheet of R.H. Nichols Co. Limited as at April 30, 1967 and the statements of income, contributed surplus and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances, except that we were unable to accurately determine the opening inventory and deficit balances as at May 1, 1966, which balances have been estimated as described in Note 6 accompanying these financial statements.

Accordingly, we are not in a position to express an opinion on the statements of income and deficit for the year.

In our opinion the accompanying balance sheet presents fairly the financial position of the company as at April 30, 1967 in accordance with generally accepted accounting principles.

WEIR, DUNCAN & CO.
Chartered Accountants

Montreal,
August 3, 1967

R.H. NICHOLS CO. LIMITED

NOTES TO ACCOMPANY FINANCIAL STATEMENTS APRIL 30, 1967

1. On March 23, 1966, C.C. MacKechnie, F.C.A., was appointed Receiver-Manager of the company and continued to serve in that capacity throughout the year under review.

2. Included in accounts receivable is a balance due from The Electricity Corporation of Nigeria amounting to \$472,297. Although the political situation in Nigeria is uncertain, the contract is in an advanced state of completion and the schedule of payments has been maintained on a normal basis.

3. Under the terms of a proposal, made by the company, the liabilities of the company as at March 23, 1966 are to be dealt with as follows:

(a) Payment of claims of the secured creditor are to be made in accordance with the terms of the applicable instrument of security or as may be arranged. The secured creditor has indicated a willingness to convert the debt owing into 6,836 6% redeemable non-voting, first preference shares of a par value of \$50.00 each to be issued by the company.

(b) Preferred claims are to be paid in full in priority to the claims of unsecured creditors and no payment is to be made to the retirement fund (referred to in Note 4 below) until all preferred claims have been paid in full.

(c) Subject to the payment of the fees and expenses of the Trustee and legal fees incidental to the proposal and fees and expenses of the Receiver-Manager and legal fees of the Receivership, a dividend in an amount to reduce the claim as at March 23, 1966 of each of the unsecured creditors to the next lowest amount divisible by \$50.00, is to be paid immediately following payment of all preferred claims. The amounts payable in this regard total \$7,681. and have been included in the financial statements under "Accounts payable and accrued charges".

(d) The company is to issue redeemable second preference shares with a par value of \$50.00 each to the unsecured creditors in full satisfaction of their claims as at March 23, 1966, save and except for the dividend referred to above. It is estimated that 11,377 second preference shares will be sufficient to satisfy all such claims. As at August 3, 1967, 7,635 of such shares had been issued.

(e) Charles C. MacKechnie, F.C.A., was appointed Trustee under the proposal and monies payable under such proposal are to be paid over to the Trustee.

This proposal, made pursuant to the Bankruptcy Act, was approved by the Registrar of the Supreme Court of Ontario in Bankruptcy on September 7, 1966.

Certain rights attaching to the first and second preference shares are set out in Note 4 below.

4. The company has obtained supplementary letters patent dated February 10, 1967, increasing the authorized capital of the company by the creation of 6,836 6% redeemable non-voting, first preference shares with a par value of \$50.00 each; 14,000 redeemable second preference shares with a par value of \$50.00 each; and an additional 42,000 common shares without nominal or par value which rank *pari passu* with those common shares previously created.

The holders of the first preference shares are entitled to receive fixed preferential non-cumulative cash dividends at the rate of 6% per annum (called the fixed dividends). They are also entitled to receive with respect to each fiscal year of the company preferential cumulative cash dividends equal to the lesser of:

- (i) 15% of the consolidated net earnings of the company for such fiscal year; or
- (ii) 6% of the amount paid up on the first preference shares then outstanding;

less any fixed dividends previously declared and paid on such shares with respect to such fiscal year.

The first preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value; provided always that the company shall not redeem or purchase for cancellation any first preference shares so long as any second preference shares are issued and outstanding.

No dividend shall at any time be declared payable on the second preference shares or the common shares, unless at the same time a dividend in the same amount per share is declared payable on the common shares or second preference shares as the case may be.

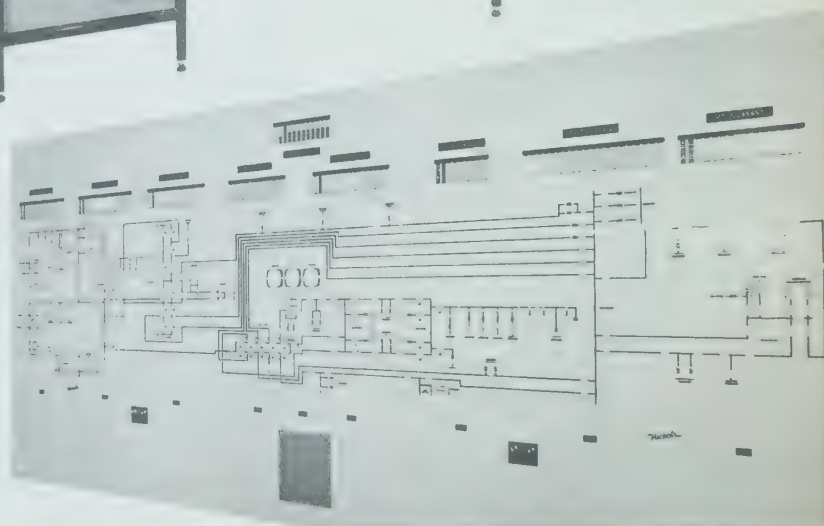
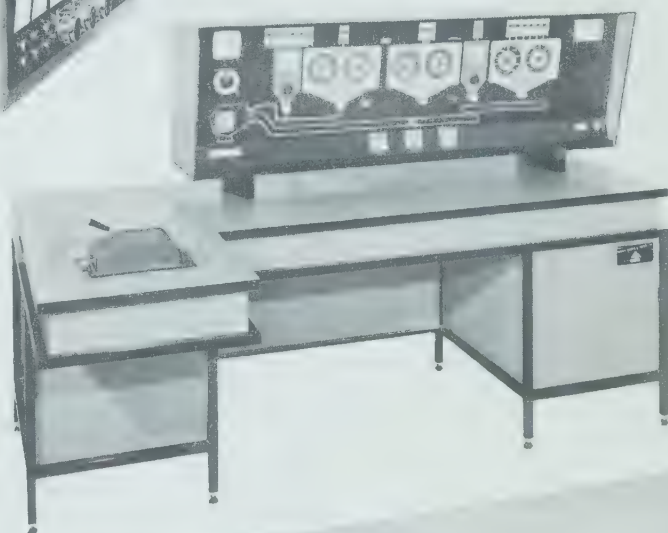
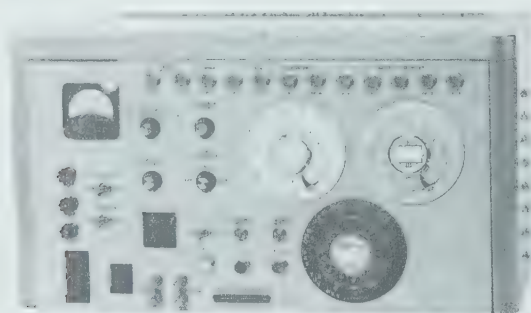
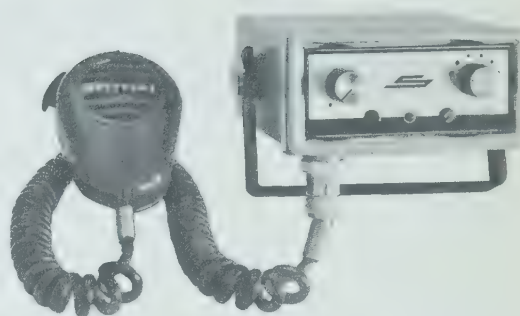
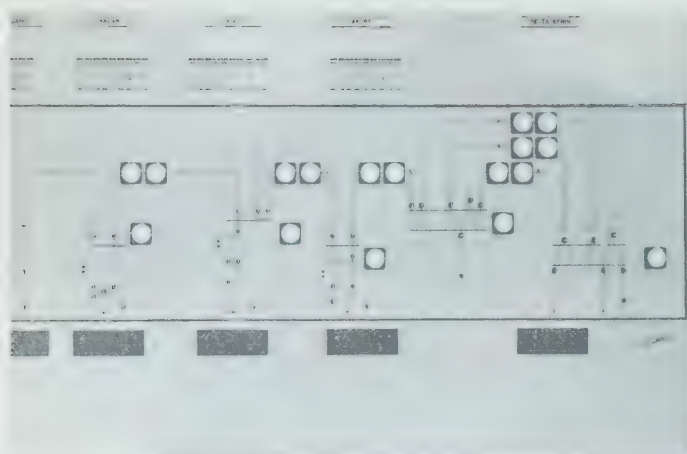
The second preference shares may be redeemed at their par value or purchased for cancellation at a price not exceeding their par value.

So long as any of the second preference shares are outstanding, the company shall on or before the 30th day of April in each year set aside in a special account on its books as a retirement fund for the second preference shares an amount equal to 25% of the consolidated net earnings of the company for its last preceding fiscal year; which amount shall be applied as soon as practicable for the redemption of second preference shares provided that the company shall not be required to so apply an amount less than \$50,000. Accordingly, with respect to its net income for the year under review, on or before April 30, 1968, the company is required to set aside in the said retirement fund the amount of \$47,936.

5. Estimated fees of the Receiver-Manager and Trustee and related legal and other fees incurred to April 30, 1967 amounted to \$41,603., of which \$36,300. had been provided for in the accounts as at April 30, 1966. Interest on borrowings during the year totalled \$33,896.

6. As at April 30, 1966 the nature of the company's accounting records was such that precise accounting information as at that date is not obtainable. In order to determine the company's net income for the year under review, its opening inventory and deficit balances as at May 1, 1966 were derived mathematically by adjusting the reported estimated deficit as at March 23, 1966 with respect to various items both by those of a retroactive nature and by those considered to apply to the thirty-eight day period ended April 30, 1966.

7. Depreciation provided during the year totalled \$12,966. Executive salaries paid to directors during the year amounted to \$24,016.



AUDITORS

WEIR, DUNCAN & CO.

STOCK TRANSFER AGENTS

MONTREAL TRUST COMPANY

HEAD OFFICE

4940 boulog st.,

montreal 9, p.q., canada

tel. 514-631-2083

twx 610-422-3065

PRESS RELEASE

INTERNATIONAL SYSTCOMS LIMITED

FOR RELEASE:

AFTER 5.00 p.m. August 25, 1967.

International Systcoms Limited has released its Annual Report for the year ended April 30, 1967. The report shows the separate accounts of Systcoms and R.H. Nichols Co. Limited, for which the Company has exercised its option to purchase all the outstanding shares.

On a combined basis the sales of the two companies were \$3,401,802. and earnings were \$226,202. which is the equivalent of 23.5 cents per share of Systcoms. Operations for the year were charged with substantial non-recurring cost relating to the re-organization of Nichols.

	<u>Sales</u>	<u>Research & Development</u>	<u>Net Working Capital</u>
1965	\$ 761,034	\$ 97,090	\$ 49,444
1966	1,509,468	144,028	118,709
1967	3,401,802	358,538	651,784

In recent weeks Systcoms has announced the acquisition of two companies, Progress Balance and Control Ltd. in Montreal and Ferritronics Ltd. in Richmond Hill, Ontario.

Systcoms has confirmed receipt of an order for \$2 1/2 million of its new VHF radio communication equipment. The company reports shipments for the first quarter substantially higher than for the same period last year.

D.D. Creighton & Co. Incorporated
5 Place Ville Marie,
Montreal 2, Quebec.

AR36

THE PILL

MARKET New

14 Risk Stocks

You've got to learn to trust us

118th Consecutive Dividend

Directors of

Corporation

1975

1976

1977

1978

1979

1980

1981

1982

1983

1984

APRIL INVENTORIES
ROSE \$600-MILLION

PROJECTED ENERGY FULL YEAR
(U.S. CONSUMPTION)

Who needs it?

A Special Report has just been prepared dealing with this dynamic market

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

The undersigned have formed the

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

PROTECTIVE COMMITTEE FOR HOLDERS OF P.P.L.

BOND TRADER

Aggressive, fast growing S.E. firm looking for potential trader with experience in Pen. & Fla. markets.

Martini

WILL THE BULL MARKET IN PORK BELLIES CONTINUE?

MONTREAL AND CANADIAN STOCK EXCHANGE INDICES (1956-100)



SAVINGS EARN TO 4.3%
INCENTIVE
A Stock Portfolio for Possible Growth of Capital and Income

NO SALES CHARGE

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INTERNATIONAL SYSTCOMS LIMITED

Introduction

Contrary to custom, we are not putting a summary and conclusion on our front page. Instead we have grouped our material in such a way that it can be readily referred to in context, and anyone can find exactly what he is looking for by referring to the index on page 2.

Our recommendation is straight forward. We think the stock should be bought at the current market of \$28 $\frac{1}{2}$. Our reasons behind the recommendation and its suitability to different accounts are the subject matter of this report.

On the next page is our estimate of earnings for fiscal 1968, 1969 and 1970. We have worked these out as carefully as possible after thoroughly studying the Company, its products and markets and after many hours of discussion with Company personnel.

On page 4, immediately after our estimates, we describe the Company, its background and its products. Then on page 18, we proceed to go through the income statements, starting with sales and working down to net profits. In this section we give the backup material for our estimates on page 3.

After this we discuss certain key factors, such as the balance sheet, capital structure, management and so on. We conclude with a description of the market for the shares, an evaluation of them (page 34) and a recommendation.

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ESTIMATED EARNINGS

Years ended April 30:	Actual	----- E s t i m a t e d -----		
	1967 (a)	1968 (b)	1969 (b)	1970 (b)
		(000's omitted)		
<u>Sales:</u>				
Systcoms	\$ 920	\$2,000	\$5,200	\$ 9,700
Nichols	2,435	3,200	4,300	5,400
Progress	-	500	1,300	1,900
Ferritronics	-	500	700	1,000
Total sales	\$3,355	\$6,200	\$11,500	\$18,000
Less: Cost of sales	\$2,558	\$4,415	\$ 7,705	\$11,380
Operating profit	\$ 797	\$1,785	\$ 3,795	\$ 6,620
Margin	23.8%	28.8%	33.0%	36.8%
Less: Overhead	\$ 563	\$ 700	\$ 800	\$ 930
Pre-tax earnings	\$ 234	\$1,085	\$ 2,995	\$ 5,690
Less: Income taxes	8	275	1,035	2,500
Effective tax rate	3.5%	25.3%	34.6%	43.9%
Net profit	\$ 226	\$ 810	\$1,960	\$ 3,190
Common shares o/s	967	1,080	1,090	1,100
Earnings per share	\$0.23	\$0.75	\$1.80	\$2.90
<u>Earnings per share (company breakdown):</u>				
Systcoms	\$0.04	\$0.17	\$0.82	\$1.70
Nichols	0.19	0.41	0.73	0.73
Progress	-	0.09	0.17	0.31
Ferritronics	-	0.08	0.08	0.16
	\$0.23	\$0.75	\$1.80	\$2.90

(a) Adjusted to combine the accounts of R. H. Nichols Co. Limited for the full fiscal year ended April 30, 1967, and to eliminate inter-company transactions.

(b) Estimates exclude inter-company transactions and assume consolidation of R.H. Nichols Co. Limited, Progress Balance and Control Ltd. and Ferritronics Limited for the fiscal year ending April 30, 1968, and subsequent periods.

THE COMPANY

International Systcoms Limited ("Systcoms") is a Montreal-based electronics company incorporated in 1958. Present management assumed control in 1961 and has made remarkable progress. Sales have increased from \$193,600 in the 1961-62 fiscal year to \$3.4 million on a combined basis for the fiscal year ended April 30, 1967. Sales are estimated at \$6.2 million on a consolidated basis for this fiscal year, \$11.5 million next year and \$18.0 million in the following fiscal year.

The Company engineers, designs and manufactures portable and mobile radio telephone equipment, electronic supervisory control and telemetering equipment, electronic systems for weighing and process control applications, frequency selective devices and other products. Systcoms also does an active agency business.

The Company has three wholly-owned subsidiaries, namely, R. H. Nichols Co. Limited (Toronto), Progress Balance and Control Ltd. (Montreal) and Ferritronics Limited (Toronto).

Capitalization (consolidated)

(As at October 3, 1967 - Pro-forma)

	<u>Authorized</u>	<u>Outstanding</u>
Funded debt	\$ -	\$325,500
Preferred shares	-	\$910,650
Common shares	1,500,000 shs.	1,025,266 shs.

Note: For further particulars relating to the capitalization, see page 28.

History of the Company

Systcoms was formed by a group, primarily engineers, who had left one of the Company's competitors. The initial aim was to engineer, design and manufacture mobile radio telephone equipment for sale to the professional (telephone utility) market in Canada. This group had very considerable technical competence but was lacking in business and administrative experience. Net losses were shown from the outset and, in fact, losses accelerated each year so that by April 30, 1961, there was an equity deficit of \$372,000 and the Company was insolvent.

Charterhouse Canada Ltd. had made an investment in Systcoms in 1960 and early in 1961, asked Mr. John Conner (as a management consultant) to investigate the situation to see if there was any hope of the Company being salvaged. His study let him to believe there was some chance that in time it might be turned around. He was asked to assume the senior management position, and accepted.

The initial problems were immense. Mr. Conner, together with a Montreal group, guaranteed a \$100,000 line of bank credit, a new management philosophy was instituted, the Company was drastically re-organized and re-structured, and arrangements were negotiated with the creditors.

The results have been quite outstanding. Systcoms has increased its sales substantially, and its earnings have risen each year since the new management assumed control. Also, the Company's engineers developed, over a four year period, the recently introduced "Century" series radio telephone equipment which appears to be a significant breakthrough in technology. These accomplishments were achieved with very limited capital resources.

During the period since 1961, the strong management and technical group that now exists was formed and the groundwork was laid for the next important move, the acquisition of other companies.

Recent Acquisitions

In the last 1½ years, Systcoms has acquired three other Canadian electronic companies.

R. H. Nichols Co. Limited
Progress Balance and Control Ltd.
Ferritronics Limited

All these recent acquisitions were financially insolvent or headed in that direction, all had technically competent people but were lacking in fundamental business acumen, and all were engaged in areas of electronic technology generally similar to that of Systcoms. These acquisitions were made on the premise that Systcoms had administrative and technical abilities which could be used to advantage in converting losing operations into profitable companies. In all cases, dramatic initial results have been achieved.

R. H. Nichols Co. Limited

On February 23, 1966, Systcoms entered into an option agreement whereby it obtained the right to acquire all the outstanding common shares of R. H. Nichols Co. Limited ("Nichols") in exchange for 21,580 common shares of Systcoms. The Company elected to take up its option on April 19, 1967, subject to the approval of the Quebec Securities Commission, and clearance is expected shortly. The former shareholders of Nichols were also granted an option to purchase 25,000 common shares of Systcoms. It is expected that this option will be exercised sometime within the current fiscal year.

Nichols designs and manufactures electronic supervisory control and telemetering equipment which it sells to electric utilities, the transportation and communications industries and various other industries in Canada, the United States and abroad. The Company was incorporated in 1908 and over two-thirds of all supervisory control systems in use in Canada are Nichols products.

During the two to three year period prior to the acquisition of management control by Systcoms, Nichols attempted to convert its production of supervisory control equipment from electrical-mechanical to electronic operation. The costs of producing the new electronic products far exceeded management's estimate resulting in a sharp deterioration in profitability.

By April 30, 1966, Nichols had a net equity deficit of \$1,003,000 and was insolvent.

The acquisition and re-organization of Nichols presented Systcoms' management with a very considerable challenge. The company was insolvent, had no credit and, at that time, Systcoms was able to provide only limited financial assistance.

The first step was to define the problems affecting the company. It was determined that the accounting system was inadequate since direct manufacturing costs were not being properly calculated. Secondly, overhead was far too high. The solution envisaged some improvement in sales and lower direct manufacturing costs than had previously been attained. However, achievement of these goals still required a substantial cut in overhead if a satisfactory return on sales was to be realized. This was done by retaining only 102 of the 163 employees on the payroll at the time. With the assistance of the new management, all of the 61 people who left were re-employed by other companies within a two week period.

Also, a new management philosophy was instituted and long term company objectives defined. With this plan implemented, management was then in a position to negotiate a plan for settlement with the creditors. A satisfactory proposal was worked out under which all creditors are being repaid from net earnings.

The success of the re-organization of Nichols has been remarkable. During the first full year under Systcoms' management, the company increased its sales from \$1,868,000 to over \$2,480,000. Profitability has improved from a net loss of over \$750,000 for the fiscal year ended April 30, 1966, to a net profit of \$191,000 for the year ended April 30, 1967. The 1967 results were achieved after absorbing in full about \$200,000 of special non-recurring costs associated with the re-organization. A substantial additional gain in earnings is anticipated in this and subsequent years.

Progress Balance and Control Ltd.

On May 26, 1967, Systcoms obtained an option to purchase all of the outstanding shares of Progress Balance and Control Ltd. ("Progress"). It has now exercised its option to buy Progress and the purchase price was 750 common shares of Systcoms.

Progress produces electronic control equipment capable of being used by all industries in association with automatic weighing, measuring, blending and process control operations. The company also acts as an

agent for various types and brands of electronic and mechanical scales. Progress' electronic control systems have so far been used by cement plants, food processors and in blast furnace and fertilizer plant operations. The potential application for equipment of this type, on a labour and cost saving basis and to assure perfect quality control, is considered to be very large.

Progress was incorporated in May, 1963 and while the company had recognized technical abilities, it was unable in its short history to reach a satisfactory sales level or make a profit.

During the first three months under Systcoms' management (June, July and August 1967), we understand sales increased 105% over the same period of the previous year. The unaudited statements also indicate a net profit was achieved during the latest three month period. Profitable operations had never before been attained.

Ferritronics Limited

On August 3, 1967, Systcoms acquired all the issued and outstanding shares of Ferritronics Limited ("Ferritronics") in exchange for 12,500 common shares of Systcoms.

Ferritronics produces various frequency selective devices which are components widely used in the electronics industry. The company's engineering staff has been involved with the application of ferrites since the first commercial samples became available in North America in 1950.

Similar to all of the companies which Systcoms has acquired, Ferritronics had excellent engineering capabilities but mis-identified its objective. The company had considerable difficulty in generating a satisfactory sales volume and, more particularly, a profit.

Initial indications are that Ferritronics is already increasing its sales under new management and is generating a profit.

Products Designed and Manufactured by the Group

Communications Equipment

All communications equipment manufactured within the group is made by Systcoms.

The original mobile radio telephone unit developed in 1959 was not particularly sophisticated or competitively priced, and played a part in the financial insolvency early in 1961.

By early 1962, the new management and the engineering team had developed the "Commander I" VHF trunk-mounted unit which, at the time, was

very competitive and compact. This unit was almost entirely vacuum tube (except for two transistors), 2 channels and 15 watts. The first telephone company order was received in the fall of 1962. Subsequently, the "Commander II" hybrid unit was developed and the circuitry was used to produce dispatchers and professional base station transmitter and receiver equipment. The "Commander III" unit, containing more transistors and fewer tubes, was introduced in 1964.

During the above period, the industry was in a period of rapid technological change. As transistors came down in price they became economically feasible in certain areas of the unit. New competitive models taking advantage of new breakthroughs were being introduced to the market so quickly that the telephone companies were reluctant to order new equipment in large quantity since it was generally known the equipment would obsolesce within a year or less. The industry goal was to develop a fully transistorized unit using 100% solid state circuitry. After four years of engineering, Systcoms has recently completed development of such equipment which is now in production.

The new equipment produced by Systcoms, known as the "Century" series, is fully transistorized and has 100% solid state circuitry. It has 13 channels, is a full duplex system (permitting simultaneous two way conversation), and has a built-in tone decoder (allowing the unit to ring only when its particular number is dialed). The unit can be equipped with a dialing device so that it would operate exactly the same as an ordinary telephone.

The weight of the complete unit can be reduced to about 10 pounds, the equipment is reliable, can be purchased at a very competitive price, and has ease of accessibility and low maintenance costs.

The development of this new equipment is a very important technological breakthrough for Systcoms. The Company presently appears to be technically abreast of all world-wide competitors and this product is ahead of many other units now available on the market.

Systcoms telephone equipment is used by every major telephone company in Canada; by federal, provincial and municipal government agencies and by commercial and industrial customers. The "Century" unit has been designed to meet the specifications and demands of this market, particularly the professional telephone utility market.

Now that fully-transistorized, completely solid state circuitry is available, the telephone companies apparently feel a technological plateau has been reached and that they can order equipment knowing it may not obsolesce for perhaps 5 - 10 years. Due to the reluctance to order previous equipment during a period of rapid technological change, much of the present equipment now in use is old and obsolete so a large replacement market exists as well as expanding new potential.

The fact that Systcoms has been able to design and produce a sophisticated piece of equipment and reduce the weight so considerably opens up a whole new potential market.

The Company has been producing Century series equipment commercially since May, 1967 and has received orders from B. C. Telephone, Alberta Government Telephone and others. This equipment has been designed for under-dash or trunk mounting in automobiles and for marine uses. Substantial additional orders are expected, especially if the telephone companies decide to convert all or a portion of their present equipment.

Other Communications Equipment Produced

In addition to its production of VHF land mobile and marine radio telephone equipment, Systcoms also produces other related communications equipment.

Base station equipment

Used to receive and transmit radio telephone calls to land mobile or marine radio telephone equipment in the field. Base station receiver and transmitter sets are used by the control centers in provincial police departments, highway patrols, municipal police, taxi companies and commercial businesses with trucks, etc. in the field using radio telephone communications.

Tone encoders

These are used in base station receiving equipment to pick up and distinguish the individual tone signals when a call is placed from mobile telephone equipment in the field in a private radio-telephone system.

Tone decoders

The opposite of the above, they permit the mobile telephone unit to pick up its particular tone signal and ring when its number is dialed.

Control head-receiver sets

The radio telephone control equipment, together with receiver, installed near the driver in an automobile or truck when the telephone unit itself is mounted in the truck.

Now that the Company has developed the fully-transistorized, solid state integrated circuitry used in the Century series equipment, this same circuitry can be adopted for use in 8 - 9 other types of communications equipment. The circuitry can, for example, be used in tone encoders, tone decoders, base station equipment and other products currently being designed by Systcoms' engineers.

The present total market for mobile radio telephone equipment in Canada is estimated to be about \$10 million a year of which Systcoms has

probably had a 15% - 20% share in the past. The telephone utility market is considerably smaller and Systcoms has had virtually this entire professional market in recent years. The Company does business with all eight major telephone companies in Canada including Bell Telephone, Alberta Government Telephone and B. C. Telephone. One of Systcoms' largest customers in Canada has given us a very enthusiastic report on the Company's products, particularly on the new Century equipment.

The U. S. market for land mobile radio telephone equipment was estimated at \$170.5 million for 1966 and is forecast to total \$180 million in 1967 and \$205 million by 1970. These estimates exclude marine equipment. Also, a very large new potential market has now been opened up as the result of the development of light weight equipment designed for personally portable telephone service (see page 16.)

If Systcoms can capture even 5% of the total U. S. market a very significant sales increase, in comparison with the size of present operations, would occur.

Rural Radio Telephone Equipment

Systcoms has developed prototype "wireless" telephone units designed for future use in the vast rural areas presently without telephone service. Most telephone companies will not provide line service to an individual customer more than a calculated distance away from the main line.

The new telephone units will connect with the normal telephone network by radio. They will differ from a radio however in that they will provide simultaneous two way conversation as well as dialing, ringing and automatic connecting and disconnecting with the normal telephone system. These new radio telephones will provide exactly similar service to ordinary telephones.

The unit can be mounted in a rural home or cottage and a tone impulse receiver-transmitter unit would be mounted on the nearest telephone pole. It would have the ability to receive tone pulses from the radio telephone and translate these pulses into conventional line current pulses and reverse the procedure on incoming calls. The radio telephone would operate up to 20 miles away from telephone lines, depending on terrain.

Systcoms has submitted model equipment to The Bell Telephone Company of Canada for evaluation and field testing. Trials using Systcoms' equipment will be carried out this fall by several U. S. telephone companies.

In the Province of Saskatchewan, surveys have estimated there is a market for over 4,000 rural radio telephone sets and the potential market in Canada alone, could exceed \$50 million. At present prices, this equipment appears to be economical for telephone company installation to individual customers more than 6/10 of a mile from the nearest telephone line.

Competitors

The main factors in the radio telephone field in Canada aside from Systcoms are Motorola, General Electric, Pye Electronics and Canadian Marconi. The major companies in the U. S. market include Motorola, General Electric, R. C. A., Aircraft Radio Corp. (Pye), Dumont and Kaar (Marconi).

Electronic Supervisory Control & Telemetering Equipment

Electronic supervisory control systems are labour saving tools capable of controlling remotely the operation of productive machinery and equipment. By sending out a signal from a control center, the operation of equipment many miles away can be completely controlled without the need for on-the-spot personnel. Any number of commands can be given electronically to control the machinery and similarly all required information can be fed back from the site to the control center. Supervision, control and communication are instantaneous. The cost savings of using electronic automation equipment can be substantial.

The electronic supervisory control field, in its present form, is a relatively new industry dating back just a few years. Previous equipment of this type was electro-mechanical in operation, was very bulky and consisted of many moving parts which wore out in time. Its main deficiency was that it operated at speeds too slow to be integrated with a computer.

Recently, the development of integrated, solid-state circuits, coupled with the use of transistors, has created a vast new market potential. Integrated circuits and transistors have no moving parts and are also capable of continuous operation. The new electronic systems employing these components are very dependable, lower in cost and inexpensive to maintain. They can also transmit or receive electronic signals at very high speeds permitting integration with a computer.

The potential market for electronic equipment of this type is very large as virtually all industries are interested in automating to reduce costs and remain competitive. Almost any repetitive human function can be automated electronically. The potential market is just beginning to be developed.

Systcoms' activities in this exciting field are represented through its subsidiaries, R. H. Nichols Co. Limited and Progress Balance and Control Ltd.

Nichols Equipment: The electronic supervisory control and telemetering systems and equipment engineered and produced by Nichols are custom-designed for virtually all industries. To date, the main concentration has been on designing systems for electric utilities, oil and natural gas pipelines, refineries and oil field production and

gathering systems. Over 600 industrial and utility installations across Canada employ supervisory control systems and over two-thirds of these systems were designed and built by Nichols.

Nichols has supplied supervisory control and telemetering systems or specific equipment for most of the electric utilities in Canada. For example, Calgary Power now controls remotely (with Nichols equipment) the operation of its eleven hydro electric generating stations in Alberta from a master control center. This is one of the largest generating systems in the world under remote control. This equipment controls dam sites, generating stations and distribution of power within the Province. Between 10 and 15 people were previously required at each generating or sub-station. Completely unattended operation is now possible.

Systems and equipment have been designed for pipeline systems which completely automates their operation electronically. Flow rates can be increased, decreased or re-directed from a remote control center. An instant feed-back of information, such as pipeline pressure, temperature, flow rates etc., can be provided.

Equipment and complete systems have been provided for oil refineries which control and supervise the whole refinery process with only a few people required. Electronic control systems are capable of replacing all the heavy and expensive cabling which previously existed.

Nichols equipment has been designed and manufactured for use in oil fields. The Jumping Pound field in Alberta is being electronically automated with Nichols equipment at the present time. The operations of each individual well in the field, as well as the field gathering system, will be controlled from Calgary, 30 miles away. Many more contracts for work of this type are anticipated in future.

The company has supplied systems and equipment for use in steel mills, subways, municipal waterworks, radio stations and many other industries in Canada and abroad.

Nichols telemetering equipment is capable of providing continuous interrogation of remote production machinery and can gather information at computer in-put rates. The computer can then "command" the supervisory control equipment and adjust the control, if required, on the basis of incoming information. In operations of this type, complete automation is possible with virtually no operating personnel required.

Although remote control systems sound very glamorous, the degree of technological difficulty is less than that required for the design of radio telephone equipment. Consequently, there are more competitors. The secret of success is in designing the equipment so that it will perform the function required reliably and continuously.

Nichols also produces products and systems for local control, industrial analysis, process control, measurement, testing, industrial electrical and electronic equipment, and other products. The company also does a large jobber business and is the exclusive Canadian distributor

for a group of test equipment manufacturers, including: AVO Ltd., Cambridge Instrument Co. Ltd., Ernest Turner Electrical Instrument Co. Ltd., Evershed & Vignoles Ltd., Jaquet Ltd., Kipp & Aonen, Rank Pullin Controls and Record Electrical Co. Ltd.

The market for supervisory control systems and equipment is expanding rapidly as new applications are developed and as previous systems are converted to more sophisticated automation techniques. As a result of technological developments in recent years, more advanced systems are now capable of being produced, and at a lower cost.

Nichols' Competitors

Nichols competitors in Canada include Motorola, Quindar Products, Fischer & Porter, Canadian Aviation Electronics and Central Dynamics.

Although Nichols is not presently operating in the U. S., the major factors in that market include Control Data, Motorola, Fischer & Porter, Data Control, General Electric, Sangamo Electric, Dresser Industries and Minneapolis Honeywell (Micro Switching Division).

Most of the above companies specialize in specific areas of the supervisory control field.

Progress' Products

The equipment designed and manufactured by Progress serves about the same function as that of Nichols. However, Progress has tended to concentrate on analog type automatic electronic process control equipment which it designs primarily for industry.

Progress has done a lot of work in electronically automating cement plants. For this work, the company installs a control console which acts as an on-line computer. A punch card is fed into the console containing the "recipe" for a batch of cement. All ingredients which comprise cement are weighed electronically and all the productive machinery in the plant is tied into the master control station which controls the whole production process. Readings from the production machinery are fed back to the console so that accurate supervision of the overall operation is maintained. Perfect quality control is maintained as there is no opportunity for human error.

From the punch card containing the "recipe", an exact record of each ingredient used and quantities consumed is available. This card can then be used to do all costing, pricing and invoicing and for maintaining inventory control, purchasing and other accounting functions.

The company has done similar work in automating a dog food manufacturing plant, a sausage manufacturing plant, blast furnace and fertilizer plant operations. Progress has only been in operation for four years and

until it was acquired recently by Systcoms, it had confined most of its activity to the Province of Quebec. We anticipate the company will now extend its operations to other areas. Virtually any industry is a candidate for equipment of this type and many companies are now finding it mandatory that they automate in this way if they are to remain competitive.

Progress' Competitors

The competition in Progress' field includes Toledo Scale, Robert Morse and Fairbanks Morse (Canada).

Frequency Selective Devices

Frequency selective devices comprise a wide range of electronic components and, in general terms, are components which have the ability to filter and select electronic frequencies required to activate other components or equipment. Systcoms' interest in this field arises through its recent acquisition of Ferritronics Limited.

Ferritronics' engineering staff has been involved with the application of ferrites since the first commercial samples became available in North America in 1950. The company has many years of experience in circuit design and in the production of components with high accuracy and uniformity.

The likely trend of the electronics industry will be the marriage of high quality frequency selective devices with integrated circuits. The integrated circuit field has received much publicity and is regarded as one of the more glamorous aspects of the electronics industry but without a source of reliable frequency selective devices, the advantages of integrated circuits cannot be effectively utilized.

Systcoms has recently designed and completed a prototype of a device in wide general use which it anticipates selling at about one-third the price of existing versions of the product. This development is considered to be an engineering breakthrough. The potential total market for products of this type in North America is estimated to be several million dollars annually. The new device will be produced by Ferritronics.

Ferritronics' Competitors

There are apparently no companies in Canada, aside from Ferritronics, which produce significant quantities of ferrite frequency selective devices. General Ceramics is an important factor in the U. S. market.

Agency Business

Most of Systcoms' agency business has been carried on through Nichols, which acts as a jobber for a number of other companies (see page 13). This

business complements Nichols' operations, provides a competitive source of supply for some components and serves to broaden the range of products and services the company can provide. Agency sales in the past have represented about 10% of the sales of the present fully-consolidated company.

In connection with its agency business, Nichols also has one of the best equipped and most efficient instrument service laboratories in Canada.

Systcoms itself will now increase its jobber business substantially as a result of a recent agreement with RCA Victor. Systcoms has been appointed Canadian distributor for RCA's 50 and 450 megacycle radio telephone equipment. This equipment will broaden the range of products the Company can provide to its customers. Probably the most significant aspect of the recent deal is that it demonstrates a competitor's view of the Company's competence in its field.

Sales Development Program

The active selling force in Systcoms and its subsidiaries is quite small in relation to that required in most other industries. This is because the companies deal at an engineering level with a relatively small and close group which is aware of what Systcoms can provide because of professional, trade or personal liaison and contact.

The Company's policy is to anticipate developments in the electronics and components field and then design, develop and produce products and systems to meet the needs of the customers it serves. If the equipment meets exacting specifications, performs the function required and is available at an economical price, then it does not need much selling. The companies use their sales engineers to identify future markets and to make sure they are in a position to produce the necessary equipment when required.

Recent management appointments should strengthen the sales drive as most of the senior people in the four companies are sales-oriented. However, the Company is short on U. S. coverage particularly and will be taking steps shortly to broaden penetration of that market.

More sales staff will be developed internally in future but additional sales personnel will be hired to cover the broadening product range now available.

Research & Development Program

The technical competence, experience, intelligence level and capabilities of the engineering staff is one of the Company's strongest assets. It was this strength, in particular, which most attracted Mr. John Conner to each of the four companies which presently comprise the Systcoms group.

As part of the management philosophy, each engineer is keenly aware of the clearly defined objectives of the Company. Each is versed in all

aspects of the overall operation. They are capable of preparing cash flow projections and know precisely the cost of components and the cost and margin of each product produced. In this atmosphere, they tend to concentrate their activities in areas of greatest productiveness and do not get side-tracked on "interesting" projects or ideas that are not in line with the long term objective.

The Company has a total of 36 engineers; 8 in Systcoms, 25 in Nichols, 1 in Progress and 2 in Ferritronics. The engineering staff of 8 in Systcoms has a total of 14 degrees, or an average of almost 2 per person and all have taken additional non-degree post graduate courses. The fact that this group was able to develop the Century series radio telephone equipment on a low budget speaks highly of their capabilities.

Research and engineering expenses have been running at about 10% of sales and totalled \$358,538 in fiscal 1967 for Systcoms and Nichols. Projected R & D expenditures for all four companies are \$450,000 in fiscal 1968, \$650,000 in 1969 and \$900,000 in fiscal 1970. Additional qualified staff will be employed over the next few years.

Management has informed us it has a waiting list of engineers who wish to join the staff.

New Contract

Systcoms recently signed a firm contract calling for delivery of \$2½ million of Century series radio telephone equipment by April 30, 1969. We understand the order was received from Phone Consultants International, a large supplier of equipment to several leading U. S. telephone companies in the Western states.

The contract calls for delivery of \$1 million of the equipment by April 30, 1968 and a minimum of \$1½ million for delivery in Systcoms next fiscal year ending April 30, 1969. PCI has an option to purchase up to an additional \$4.8 million of equipment during the year ending April 30, 1969. We understand Phone Consultants has received firm, advance orders in excess of the contract minimums. In fact, the signed orders presently in hand already indicate a sizeable portion of the option will be required.

The Century equipment for the above order is being re-designed and packaged to fit into an ordinary attache case. It will be a completely portable telephone unit and it is expected that the total weight, including briefcase, will be about 10 pounds. The equipment is expected to be used by salesmen, business executives, construction workers and others and could develop some novelty appeal as well. The first units are expected to be delivered by Systcoms in December 1967. It is expected the telephone companies will retail the units at about \$2,000 or rent them to individual customers at about \$50 - \$65 a month.

The Company is understood to be negotiating other orders in the United States for the briefcase telephone and other equipment. Additional business is expected.

Possible New Dealership

Sangamo Electric in the United States is displaying all of the professional communications equipment produced by Systcoms at the Independent Telephone Convention being held at the present time in Las Vegas, Nevada. This showing could result in an agreement whereby Sangamo Electric would be granted a dealership for all Systcoms' professional communications products in the United States.

Sangamo is a reputable, long established company with a successful record. It covers the exact market Systcoms is interested in, namely, the telephone companies, electric utilities and pipeline companies. Sangamo Electric has 44 sales engineers available to provide nation-wide sales coverage for Systcoms' products.

Manufacturing Plants

The Systcoms group of companies operates four engineering and manufacturing plants in Canada.

<u>Company</u>	<u>Plant Location</u>	<u>Total Floor Area</u>	<u>Number of Employees</u>
Systcoms	Montreal, P. Q.	18,000 sq. ft.	99
Nichols	Downsview, Ont.	25,000 sq. ft.	106
Progress	Montreal, P. Q.	6,000 sq. ft.	12
Feritronics	Richmond Hill, Ont.	10,000 sq. ft.	37

All four plants are leased as is most of the equipment and machinery. Management believes firmly that the Company's available assets should be invested in people possessing administrative and technical competence rather than "bricks and mortar".

U. S. Expansion Program

The Company plans to establish manufacturing operations in the United States in the near future. The initial facilities will be set up primarily to assemble and produce the new Century series portable radio telephone equipment.

The Company plans to lease about 18,000 sq. ft. in an existing plant in Queens, N. Y. The plant will be primarily an assembly operation and will not require the recruitment of a large staff of highly trained people. There are less than 40 man hours required to assemble a Century unit and the staff could be trained quickly and supervised with just one or two engineers.

The cost of setting up a U. S. plant would not be very great. For a straight assembly operation, little equipment would be required and

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inventories and accounts receivable could be financed temporarily via bank loans. The initial capital needs would probably be less than \$300,000 and this would liquidate fairly shortly.

The competitive implications of a small company entering the American market against very large, well-financed U. S. companies does not overly concern us. The main competition designs its mobile radio telephone equipment to meet defense specifications. This same equipment, without modification, is sold to the telephone companies but is not designed specifically to meet their requirements. Systcoms' unit will be lower cost, lighter and less expensive to maintain. Systcoms has very specific and limited objectives in the U. S. market - to serve the professional, utility market only. It will not attempt to be broadly competitive and is aiming at just one area of total market.

It is anticipated that Century equipment will be produced in the United States by early 1968.

INCOME STATEMENT ANALYSIS

All estimates and projections contained in the following analysis of the Company's P & L statement includes the accounts of Systcoms and all its present subsidiaries including Nichols, Progress and Ferritronics. It is anticipated that all of these companies will be wholly-owned subsidiaries by the current fiscal year end and will be consolidated in the accounts for the full year.

Sales

The Company has increased its sales substantially since fiscal 1961 - 1962 when the present management assumed operating control.

Years ended April 30:	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Sales (000's)	\$194	\$422	\$414	\$761	\$1,509	\$3,355 *

* Including Nichols, "ex" inter-company sales.

Sharply higher sales are expected in future in Systcoms and Nichols and the consolidation of Progress and Ferritronics will also contribute towards the anticipated improvement.

Systcoms

Systcom's sales were only \$920,000 in fiscal 1967, down from \$1,509,000 in the previous year. This was due to the fact that the telephone company customers in Canada were informed that the new Century series equipment would be forthcoming soon and they were encouraged by Systcoms to withhold major orders until the new equipment became available. The Century series was not introduced to the market until after the fiscal year end. Systcoms has already received orders in Canada for over \$2 million of the new Century mobile radio telephone equipment for delivery over the next 2½ years and more orders are expected.

The new Century "under dash" model mobile telephone will be introduced to the market within the next 6 - 8 weeks. In addition, sales of other products using the Century circuitry will increase sharply over the next few years and some market will continue to exist for previous, older series equipment. The RCA Victor agency agreement (see page 15) will add to sales as well.

The U. S. order received from Phone Consultants International (see page 16) will add \$1 million to sales in the current fiscal year and at least \$1½ million next year. In fact, if PCI exercised its option in full, this contract could result in orders of \$6.3 million in Systcoms' 1968 - 1969 fiscal year. Business in the portable phone equipment could become very sizeable and additional orders are confidently expected.

If a dealership agreement is concluded with Sangamo Electric (see page 17) in the United States, it could improve Systcoms' sales substantially.

We conservatively estimate that Systcoms' sales will rise from \$920,000 last year, to \$2 million in this fiscal year, \$5.2 million next year and \$9.7 million in fiscal 1969 - 1970.

Nichols

Sales of Nichols were almost \$2,481,000 in fiscal 1967, which was the first full year of operation under present management. Sales in the previous year were \$1,868,000.

The company is presently working on a \$300,000 supervisory control and telemetering system for one of Canada's largest electric utilities. This is a "lead" system for this utility which could be the basis for the entire future system. A complete system of this type could result in over \$10 million of business for Nichols, although this would be spread over several years.

Nichols has tendered on an electronic supervisory control system for a proposed new crude oil pipeline in Russia. This could result in about \$2 million of business for Nichols over 2 - 3 years. The company's prospects for getting the contract, if the project is approved, are considered to be good. Nichols is about the only firm in the electronic

supervisory control field with the equipment and experience necessary to ensure satisfactory operation of the system at very low temperature conditions.

The company is presently working on a number of other large projects including a control system for the Sarnia-Toronto crude oil pipeline, and control systems for standby turbo generators. This latter business has been increasing rapidly and we understand Nichols' volume in the first four months of the current fiscal year is more than twice actual sales in this line for all of the last fiscal year.

Nichols' agency sales amounted to about \$600,000 in fiscal 1966 - 1967. This business could easily be doubled by the 1969 - 1970 fiscal year as the company will be placing more emphasis on this aspect of operations.

We understand bookings so far in the current year have shown a considerable gain over the same period in 1966.

Overall, we estimate that Nichols' sales will rise from \$2,435,000 ("ex" sales to Systcoms) last year to \$3.2 million this year, \$4.3 million in fiscal 1969 and \$5.4 million by fiscal 1970.

Progress

Systcoms assumed management control of Progress on May 26, 1967. Sales in the first three months under new management were up 105% over the similar months of the previous year. The order backlog in this period has shown a much greater percentage gain.

Progress has recently been working on electronic process control systems for various cement plants and food processing operations (see page 13). Additional work for systems of this type is on the drawing boards. The company will expand its operations and staff over the next few years so that it will be in a position to take advantage of the potential market in these and many other industries. It will also expand its market coverage geographically.

We estimate that Progress' sales will rise from \$175,000 for the fiscal year ended June 30, 1967, to \$500,000 this year, \$1.3 million next year and \$1.9 million in fiscal 1969 - 1970. The surface of the potential market for automation equipment of the type designed and manufactured by the company is virtually unlimited.

Ferritronics

Systcoms purchased Ferritronics effective August 3, 1967, and it has therefore been running the operation for only a short while.

Ferritronics produces various frequency selective devices (see page 14) and Systcoms, Nichols and Progress all have an internal demand for

certain of the company's products. Ferritronics sales should increase by at least the amount of its new "captive" market (about \$200,000 annually at the present time) as the company has the capacity to handle this business. The normal business is also expected to continue expanding.

Systcoms has developed a new device which will be manufactured and sold by Ferritronics which is considered to be quite a technical breakthrough (see page 14). This is expected to be introduced to the market within the next six months and could add significantly to future sales growth.

We estimate that Ferritronics' sales will rise from \$215,000 for the fiscal year ended June 30, 1967, to \$500,000 this year, \$700,000 next year and at least \$1.0 million in fiscal 1969 - 1970.

Projected Sales

On the basis of the foregoing analysis and discussion, we estimate total sales for the present four companies as follows over the next few years.

Years ended April 30:	Actual	-- E s t i m a t e d --		
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
		(000's omitted)		
Systcoms	\$ 920	\$2,000	\$5,200	\$9,700
Nichols	2,435	3,200	4,300	5,400
Progress	-	500	1,300	1,900
Ferritronics	-	500	700	1,000
Total Sales	<u>\$3,355</u>	<u>\$6,200</u>	<u>\$11,500</u>	<u>\$18,000</u>

Overall, we estimate over 75% of estimated fiscal 1968 sales are "firm" on the basis of signed contracts or letters of intent. The firm portion of total projected sales naturally decreases in 1969 and again in fiscal 1970 but we nevertheless feel our projections are very reasonable on the basis of present indications.

Cost of Sales

Cost of sales amounted to an estimated \$2,558,000 for Systcoms and Nichols, on a combined basis, during the fiscal year ended April 30, 1967.

Cost of sales, for the purpose of this analysis, includes the following items:

- Direct material costs
- Direct production costs
- Research and engineering expenses
- Lease costs and expenses
- Factory direct overhead
- Depreciation

Direct Material Costs

These expenses are the largest single item in cost of sales and comprise over half the total.

The tendency in recent years has been for transistors, integrated circuits and certain other components used by the Company to come down in price. However, sales prices have, in some cases, been reduced accordingly. It is expected that the cost of components could decline slightly more. The companies buy most of their components but in all cases have alternate sources of supply. Ferritronics produces some components used by all three of the other companies in the group and lower costs should result on these items.

In our estimates, we have assumed that direct material costs for the four companies in the group will remain at their present relationship to sales during the period to fiscal 1970. This may be a conservative estimate but we anticipate that selling prices will be reduced in line with lower material costs, if lower costs do, in fact, develop.

Direct Production Costs

We estimate that production costs will decline slightly in relation to group sales over the next few years. This argument will probably not apply in the cases of Nichols and Progress as the systems designed and produced by both companies are custom-designed to meet the requirements of particular applications. No great saving in production labour or assembly costs can be achieved with higher sales.

Both Systcoms and Ferritronics are expected to be producing their respective products in greater quantity in future. Higher sales will allow the companies to set up production and assembly on more of a mass production basis which should result in lower production costs per unit.

Research & Engineering Expenses

The research and engineering expenses of Nichols are charged in full to earnings in the year incurred. A similar policy is expected to be followed for Progress and Ferritronics. Systcoms capitalizes its current year research and engineering expenses but charges to earnings in full the capitalized expense two years previous. For example, Systcoms research and engineering expenses in fiscal 1967 were \$154,007 and this amount was capitalized. The costs incurred in fiscal 1965, amounting to \$97,593, were charged to earnings in fiscal 1967. Total research and engineering expenses for Systcoms and Nichols in fiscal 1967 were \$358,538 of which \$302,124 was charged in full to earnings.

Research and development costs are expected to rise from \$358,000 for Systcoms and Nichols last year to \$900,000 for all four companies in fiscal 1970. This is an increase of over $2\frac{1}{2}$ times but less than the estimated

sales increase we have projected of 5.3 times for the same period. Consequently, research and engineering costs should decline over the next few years in relation to sales.

Lease Costs & Expenses

All four of the Company's plants are leased as is much of the engineering and production equipment in the plants. In the past, the reason for this practice has been Systcoms' tight cash position but also, it has been expedient to charge these costs to operating income so as to reduce taxes.

At the present time, the only new facilities or equipment indicated will be for the proposed new plant in the United States. The added leasing costs and expenses of these new facilities is presently expected to add about \$30,000 annually to lease costs.

Present leased facilities and equipment will generate a higher level of sales over the next few years. We anticipate that total leasing costs and expenses during the period to 1970 will decline in relation to sales.

Factory Direct Overhead

These expenses include such items as test and inspection costs, field service, instrument costs and maintenance, drafting, purchasing and agency department expenses, incoming freight costs and others.

We estimate that these expenses, as a group, will decline somewhat relative to sales over the next few years. As sales rise, lower per unit direct overhead should be possible in some specific areas.

Depreciation

Inasmuch as all of the Company's plants and most of the engineering equipment and production machinery is leased, depreciation is a small item in the P & L statements. Total depreciation taken in Systcoms and Nichols was \$21,117 in fiscal 1967. Gross fixed assets and leasehold improvements totalled \$217,512 for the two companies as at April 30, 1967, and these assets had been depreciated down to a net total of only \$100,936 at that date.

The acquisition of Progress and Ferritronics will add to depreciation charges slightly although both companies lease their plants and most of the required equipment. The U. S. plant will also add somewhat to depreciation write-offs.

Overall, we estimate that depreciation will increase about in line with sales over the next few years.

Projected Cost of Sales

On the basis of our previous comments, we project total cost of sales for the group as follows:

Years ended April 30:	Actual	--- E s t i m a t e d ---		
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
		(000's omitted)		
Total sales	\$3,355	\$6,200	\$11,500	\$18,000
Less: Cost of sales	<u>2,558</u>	<u>4,415</u>	<u>7,705</u>	<u>11,380</u>
Operating profit	\$ 797	\$1,785	\$ 3,795	\$ 6,620
Margin	23.8%	28.8%	33.0%	36.8%

It should be noted that cost of sales in fiscal 1967 is considered by management to have been about \$200,000 above "normal" for that year. This was due to special non-recurring costs and R & D associated with the re-organization of Nichols. Had the special costs not been incurred last year, the operating profit margin would have been between 29% - 30%. Similar special costs of this nature are not expected in the cases of Progress and Ferritronics which were purchased this year.

If the operating profit margin for fiscal 1967 is "normalized" to eliminate non-recurring costs, then the projected margins seem more realistic, in our opinion.

Overhead

In our analysis, overhead costs include selling and administrative expenses and interest on long term debt. On this basis, overhead costs for Systcoms and Nichols amounted to an estimated \$563,000 in fiscal 1967.

Selling Expenses

Most of the salesmen in the group are not on a commission basis as sales are consummated as the result of a combined team effort. Higher costs due to commissions paid on rising sales will therefore not be a factor.

The companies as a group deal with a relatively small number of potential customers. Systcoms, for example, confines its activities almost strictly to the professional, telephone utility market and has only eight major customers in Canada. Virtually no additional sales expense was incurred to obtain the recent large contracts for Century radio-telephone equipment in either Canada or the United States.

It is expected, however, that selling costs will rise somewhat over the next few years. Contributing to this will be the consolidation this year of Progress and Ferritronics, a broader product line which will require some increase in sales coverage and service and a general geographic expansion of activities.

Administrative Expenses

Just one additional senior administrative person was required as result

of the acquisition of Progress and Ferritronics. The organization, as it now stands, is considered of sufficient calibre and size to handle the increased volume of business anticipated, although additional senior administrative people have recently been hired to head up the planned U. S. operation. The accounting departments and other administrative functions will require very limited expansion.

Assuming no further expansion by acquisition, administrative expenses are not expected to rise as fast as sales.

Interest on Long Term Debt

Interest on the long term debt of all four companies is running at a rate of \$33,000 annually. Recently, the exercise of management stock options has put over \$500,000 of new funds in the treasury, part of which may be used to retire some existing long term debt. Retirement schedules will reduce debt further and no additional financing is expected to be required over the next few years for the four companies presently in the group.

On the basis of the current operation, interest costs on long term debt should decline during the period to 1970.

Projected Overhead

We estimate combined selling and administrative/expenses and interest costs on long term debt as follows:

Years ended April 30:	Actual	-- E s t i m a t e d --		
	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
		(000's omitted)		
Total sales	\$3,355	\$6,200	\$11,500	\$18,000
Overhead	563	700	800	930
Overhead as a % of sales	16.8%	11.3%	7.0%	5.2%

It may appear unreasonable to expect overhead to decline so sharply in relation to sales. We believe, however, that no great expansion of sales, administration or of the general superstructure will be required to generate the higher sales envisaged. The projected sales gains will be achieved as a result of large individual contracts with a small number of customers.

Income Taxes

Systcoms had an apparent taxable profit of \$36,000 in fiscal 1967 (after allowing for a \$6,000 capital gain which was probably non-taxable) on which it paid income taxes of \$8,000. This would represent a full tax rate considering that the first \$35,000 of profits are taxed at 20% and everything above this at about 52%. Nichols paid no taxes in 1967 due to prior losses.

Available tax losses applicable to individual companies in the group total about \$900,000; \$800,000 in Nichols, \$50,000 in Progress and \$50,000 in Ferritronics. Systcoms has no tax-loss-carry-forward remaining.

On the basis of our projections of earnings for the individual companies,

and taking into account the available tax losses, we estimate the provisions for income taxes as follows:

Years ended April 30:	Actual	-- E s t i m a t e d --		
	1967	1968	1969	1970
Pre-tax earnings	\$234	\$1,085	\$2,995	\$5,690
Less: Income taxes	<u>8</u>	<u>275</u>	<u>1,035</u>	<u>2,500</u>
Net Profit	\$226	\$ 810	\$1,960	\$3,190
Effective tax rate	3.5%	25.3%	34.6%	43.9%

We have provided for taxes in our estimates after also making allowance for special grants which can be obtained under the provisions of the Industrial Research and Development Incentive Act (IRDA) for R & D expenditures.

Earnings

Systcoms has increased its earnings each year since present management assumed operating control in fiscal 1962.

Years ended April 30:	1962	1963	1964	1965	1966	1967 [★]
Net profit (000's)	\$ 7	\$ 39	\$ 42	\$150	\$180	\$226
Common shares o/s	522	553	554	945	945	967
Earnings per share	1¢	7¢	8¢	16¢	19¢	23¢

[★] Combined to include Nichols.

Based on the foregoing analysis, we estimate that earnings will rise to 75¢ a share on a consolidated basis in this current fiscal year ending April 30, 1968, to \$1.80 a share in the next year and to \$2.90 a share for the fiscal year ending April 30, 1970.

Our detailed estimates appear on page 3.

Systcoms appears as though it will be very acquisition minded over the next few years. We have not assumed in our estimates that any further acquisitions will be made but if Systcoms does take over other electronic companies, earnings per share could exceed our estimates.

Nigerian - Trinidad & Tobago Contracts

Nichols contracted to supply The Electricity Corporation of Nigeria with supervisory control equipment for a hydro project prior to the acquisition of the company by Systcoms. Nichols' portion of the contract originally totalled about \$1.8 million and the balance receivable at April 30, 1967 was \$472,297 according to a note to the balance sheet. Since April 30th, payments have been received on schedule (and, in fact, ahead of schedule) and the remaining balance is now considerably less than half the amount outstanding at the end of April 1967. No problems are expected in receiving the balance owing.

A \$300,000 contract for the Trinidad and Tobago Electricity Commission has now been completed and payment in full has been received.

BALANCE SHEET ANALYSISPro-Forma Balance Sheet

The accounts of Systcoms and Nichols as at April 30, 1967 were shown separately in the recent annual report. To obtain a better idea of the Company's current financial position, it is useful to consolidate the accounts of both companies and to adjust the cash position to reflect the infusion of funds resulting from the exercise of the option mentioned on page 29.

ASSETS

Current assets:	
Cash on hand and in bank	\$ 519,073
Accounts receivable	1,004,762
Inventories	922,750
Deposits	37,787
Pre-paid expenses	4,930
Total current assets	<u>\$2,489,302</u>
Special refundable tax	9,449
Fixed assets - net after depreciation	100,936
Excess of purchase consideration over book value of Nichols at date of acquisition	650,648
Manufacturing licences and designs	298,035
Other assets	<u>11,683</u>
Total assets	<u><u>\$3,560,053</u></u>

LIABILITIES

Current liabilities:	
Bank loans (secured)	\$ 618,800
Accounts payable & accrued charges	607,655
Income taxes payable	41,814
Current portion of deferred liabilities	18,000
Preferred liabilities of Nichols	51,307
	<u>\$1,337,576</u>
Deferred (long term debt)	325,500
Preferred shares to be issued to creditors of Nichols	910,650
Shareholders equity:	
Issued common shares	\$969,089
Allotted but unissued common shs.	<u>21,580</u>
	990,669
Deficit	<u>4,342</u>
Total liabilities	<u><u>\$3,560,053</u></u>

On a consolidated, pro-forma basis, working capital amounts to \$1,151,000 and the working capital ratio is 1.86:1.

We understand that a consolidation of the two recent acquisitions, Progress and Ferritronics, would not appreciably alter the above balance sheet.

Capital Requirements

The U. S. manufacturing operation for Century series radio telephone equipment will be primarily an assembly operation and will require a relatively small plant and only a limited amount of equipment. Both the plant and the required equipment can be leased and inventories and accounts receivable will be financed, in part, with temporary bank credit. It is estimated that the U. S. plant will require less than \$300,000 in direct capital and this will liquidate fairly quickly.

On the basis of present indications, the Company should not require any financing within the foreseeable future unless additional acquisitions are made. Chances are that any acquisition would be carried out via an exchange of stock rather than for cash. However, additional funds might be required, depending on the company acquired, to get it operating on a sound basis.

Capitalization

The condensed, consolidated capitalization table shown on page 4 of this report is based on the following information.

Long Term Debt

The recent annual report for the year ended April 30, 1967, shows total long term debt outstanding (excluding current portion) of \$325,500 for Systcoms and Nichols combined. Progress and Ferritronics, acquired after the year end, would not change this figure as neither company has long term debt outstanding.

Preferred Shares

Nichols has issued \$341,800 par value of First Preference shares and \$568,850 par value of Second Preference shares to creditors under the terms of its re-organization. A 6% dividend is payable on the First Preference, amounting to \$20,508 annually, and the Second Preference does not require a dividend. The Second Preference shares are redeemable in an amount equal to 25% of Nichols' consolidated net earnings, under certain conditions.

Neither Systcoms, Progress or Ferritronics have preferred shares outstanding.

We have not deducted any provision for Preferred Share dividends in our earnings estimates as we anticipate that a plan will be negotiated with the Nichols' creditors whereby they will exchange their Nichols preferred shares for common shares of Systcoms.

Common Shares

As at April 30, 1967, Systcoms had 945,436 common shares outstanding out of 1,000,000 authorized. Also, there were 21,580 common shares allotted, to be issued in connection with the acquisition of Nichols.

Since the fiscal year end, employee options on 10,000 Systcoms shares at 25¢ each and 10,000 shares at 50¢ each, which were outstanding at April 30, 1967, have been exercised. Also, an option was granted in August 1967 to an officer of the Company on 25,000 shares at \$20 a share; and this has now been exercised.

On September 14, 1967, shareholders approved at a Special General Meeting an increase in authorized common shares to 1,500,000 shares.

A further 12,500 common shares will be issued for the assets of Ferritronics, 21,580 shares for Nichols and 750 shares for the assets of Progress.

The former shareholders of Nichols were granted an option to purchase 25,000 common shares of Systcoms. If this option is exercised during the Company's current fiscal year, the exercise price would be about \$1.40 a share.

Recently, options were granted to officers of Systcoms to purchase 10,000 common shares at \$35 a share, 10,000 shares at \$65 a share and 10,000 shares at \$95 a share.

Common to be Outstanding

945,436 shs.	Outstanding as at April 30, 1967
10,000 "	Option at 25¢ a share
10,000 "	Option at 50¢ a share
21,580 "	Acquisition of Nichols
12,500 "	Acquisition of Ferritronics
750 "	Acquisition of Progress
25,000 "	Option at \$20.00 a share
<hr/> 1,025,266 shs.	Assumed to be o/s as at the date of this report.
25,000 shs.	Option to former Nichols' shareholders
10,000 shs.	Option at \$35.00 a share
10,000 shs.	Option at \$65.00 a share
10,000 shs.	Option at \$95.00 a share
<hr/> 1,080,266 shs.	

The maximum number of common shares which could be outstanding would total 1,080,266 shares (as shown above) excluding the common shares which might be issued in exchange for the \$910,650 par value of Preference Shares issued to Nichols' creditors.

MANAGEMENT

People

Mr. John E. Conner is President of International Systcoms Limited. He is 43 years of age and graduated from Queen's University in Kingston, Ontario. His business experience includes employment as an economist and an investment officer at the Montreal Trust Company. At the age of 28, he became Assistant to the President and Chief Production Engineer of Dominion Steel & Coal Limited and held this position from 1952 to 1959. He then became General Manager of the Structural Steel Division of Canada Iron Foundries Limited from 1959 to 1961, at which time he became associated with Systcoms.

He is an officer and director of Heroux Industries Ltd., Heroux Machine Parts Ltd., Haley Industries Ltd., and Texperts Ltd., and is a director of other Canadian and U. S. companies.

Mr. Conner has been a guest lecturer at the Graduate School of Business Administration at Harvard University and at Western and Queen's Universities in Canada. He has also lectured at the University of Lagos, Addis Ababa and other overseas schools. He specializes in teaching policy formulation and in the field of human behaviour in organization.

He has been actively associated with the Executive Development Institute of Canada since the inception of this organization in 1950. Mr. Conner specializes in teaching the Institute's advanced management course.

The basic strength of the Systcoms' organization is the quality of its personnel. The Company conducts studies at the post graduate level for all senior employees within the organization. Management has a policy of supporting all advanced studies in business administration and a very large percentage of the employees have taken advantage of this policy.

Systcoms has been the object of several studies by the Harvard Graduate School of Business Administration and is regarded as unique in its philosophy of participative management techniques.

Because of this, the Company has attracted to its service a cadre of unusually well qualified people and this, in turn, has served as the base for its rapid expansion. Key personnel include Mr. Fred W. Looker, Vice President of Systcoms and General Manager of Nichols. Mr. Looker is responsible for all the Toronto operations of the Company. Mr. Ian Rutherford, who is a Vice President of Systcoms, is responsible for the Montreal and New York operations of the Company. The organization has been structured so as to permit and facilitate the acquisition and administration of other companies.

Officials of the Company believe that they are capable at this time of effective administration of a much larger organization than Systcoms is at present.

Management Technique and Philosophy

Systcoms is one of the leading exponents of the "Theory Y" concept of management.

In 1960, Douglas McGregor of MIT wrote a book entitled, "The Human Side of Enterprise" in which he attempted to relate the psychological assumptions of conventional management to the new discoveries of the social sciences. As a result of McGregor's book, a whole new field of examination of management techniques and practices has developed.

Mr. Conner, as a result of his association with the educators at leading universities, has been aware of these conceptional changes from their early beginnings. He has been teaching these new concepts for several years and has applied Theory Y concepts at Systcoms since the management was reorganized in 1961. Systcoms, as a consequence, is one of the most mature Theory Y companies in North America.

Mr. Conner says, "Theory Y is basically a set of assumptions about people - not a system of management". The most important element of 'Y' operation is the assumption that people will act responsibly and intelligently and this applies to management as well as employees. Such an environment permits the individual to have substantial personal freedom and to exercise a considerable amount of discretion and judgment.

In applying 'Y' assumptions, "management has a great responsibility for the education of the employees", says Mr. Conner. All employees, both senior and junior, fully understand the objectives of the Company. Once the objectives are clearly defined, each individual can easily identify with these objectives. The purpose of this is to create an environment in which people can operate with maximum effectiveness towards satisfying their personal egos and thereby achieve the objectives of the Company as well.

In Systcoms and the various subsidiaries, there is a high level of educational training, intelligence and technical skill. These are highly motivated people and if they were specifically directed and told what to do, the normal reaction would be for them to rebel against management. Consequently, the Company would not be obtaining the full benefit of the knowledge, judgment and experience for which it is paying. In contrast, however, Theory Y assumptions seem to have worked extremely well for Systcoms.

Systcoms Group Objectives

The long range objective for the Systcoms "group" is to more fully integrate the separate activities of each company to the point where the group produces complete electronic systems capable of supervising, controlling, and virtually operating entire companies. The group objective is to diversify the range of present product lines and to expand by the acquisition of technologically related companies.

Management's long term objective for the Systcoms' operating division is for it to become a major supplier of telephone company electronic equipment. Nichols intends to remain the largest Canadian supplier of supervisory control systems and equipment to the utility market. Progress intends to become a large Canadian manufacturer of electronic process control systems and Ferritronics plans to specialize in the manufacture of frequency selective devices.

after 400,000 shares top

COMMON SHARES

Shareholders

There are no controlling shareholders of Systcoms. It is thought that the largest single block of stock is held by Charterhouse Canada Ltd. and the size of this holding is estimated to be 150,000 shares or about 15% of the presently outstanding shares. In addition, the management group owns an estimated 200,000 - 250,000 shares. The balance of the outstanding stock, amounting to about 650,000 - 700,000 shares, is held by about 1,000 shareholders in Canada, the United States and abroad. The total number of shareholders has risen rapidly in the last few months and this trend appears to be continuing at the present time.

Some institutional interest has developed within the last two to three months. Approximately 5 - 6 institutional accounts, primarily growth funds, are known to have acquired positions during this period.

Listing

The shares trade in the over-the-counter market in Canada.

It is anticipated that application will eventually be made to list the shares on at least one major stock exchange in Canada. Management appears to feel that listing in the immediate future might be premature.

Stock Price Pattern

An active OCT market in the stock did not develop until early 1967. The shares sold as low as \$1.00 in January 1967 and traded up to a high of about \$4.20 in April. Subsequently the stock declined on light volume reaching a low of \$3.00 a share in mid-June 1967. Since that time, the stock has been in an extremely sharp uptrend (see chart at the end of this report). Recently, another upside break-out has taken place with the stock selling as high as \$30 a share. It appears strong technically.

Dividends

No dividend is paid on the common shares at the present time. Based

on our estimates of future earnings and financial requirements, it would appear the Directors might be in a position to consider initiation of dividends within the next 12 months.

When dividends do commence, we anticipate the pay-out will be relatively low.

Interim Reporting

It is the intention initially to issue half yearly reports to shareholders. The first such report covering the six month period ending October 31, 1967, is expected early in December.

The Company plans to report quarterly as soon as practicable, possibly in about a year.

Outlook

The Systcoms group of electronic companies are engaged in some very interesting areas of operation and have the potential for rapid future growth.

The electronic supervisory control field is just getting started in Canada. Industry wants to automate and cut costs so as to stay competitive. Nichols is expected to maintain its dominant position in the industry and Progress should show excellent growth in its area of specialization.

In the mobile radio telephone field, Systcoms appears to have achieved a real engineering breakthrough with its new "Century" equipment. This equipment is of lower cost, lighter and less expensive to maintain than most competitive models. Large new and replacement markets exist in both Canada and the United States. The "briefcase" telephone equipment has exceptional potential and substantial future sales are foreseen. The "wireless" telephone for rural use provides interesting potential.

It is the Company's objective to broaden its various product lines internally and by acquisition so as to eventually be able to provide complete "systems" in both the supervisory control and communications fields. Once a larger base is firmly established in Canada, the objective is to penetrate the U. S. market.

We have estimated that sales will jump from \$3.3 million for Systcoms and Nichols last year, to \$18.0 million for the present four companies by the 1970 fiscal year. We think the Company has the administrative ability to set up the required physical organization to at least achieve the sales we have estimated.

Earnings are expected to rise from 23.4¢ a share on a combined basis last year to \$2.90 a share by 1970. Systcoms seems destined to acquire

other companies during this period. If it is in a position to exchange a high multiple stock for low multiple electronic companies with basic potential, earnings per share could exceed our estimates.

In our opinion, the outlook for Systcoms is excellent and we think the Company has the administrative and technical talent to support a much larger organization.

Evaluation

At the present price of \$28 $\frac{1}{2}$, the stock is selling at 38.0, 15.8 and 9.8 times estimated 1968, 1969 and 1970 earnings, respectively.

Each individual's evaluation of the stock will vary depending on one's assessment of the capabilities of management, the Company's technical competence, the product line and marketing possibilities, and one's degree of confidence in the earnings being projected. The multiples could vary from 10 times to 100 times and everyone will have his own idea. Some of the U. S. electronic companies sell at over 60 times earnings at the present time and Systcoms seems to have similar potential, in our opinion. Moreover, the Company is doing business on a North American basis with leading companies and firm contracts with some of these companies account for a large portion of the earnings increases we have estimated.

If earnings of \$2.90 a share for the year ending April 30, 1970, are achieved, then it is possible to arrive at estimated present day values for the stock. This can be based on a range of price earnings multiples which might be reasonable at that time and a range of "returns" on investment desired over the approximate 2 $\frac{1}{2}$ year period before those earnings are hypothetically achieved.

The following table provides some interesting present day value possibilities.

<u>Earnings Per Share 1969-70 Yr.</u>	<u>P.E. Multiple</u>	<u>Stock Price Then</u>	<u>Time Away</u>	<u>Desired Annual Return</u>	<u>Discount Factor</u>	<u>Present Day Value</u>
\$2.90	20 x	\$58	2 $\frac{1}{2}$ yrs.	10%	.787	\$45.65
"	"	"	"	20%	.631	36.60
"	"	"	"	30%	.514	29.81
\$2.90	25 x	\$72 $\frac{1}{2}$	2 $\frac{1}{2}$ yrs.	10%	.787	\$57.06
"	"	"	"	20%	.631	45.75
"	"	"	"	30%	.514	37.27
\$2.90	30 x	\$87	2 $\frac{1}{2}$ yrs.	10%	.787	\$68.47
"	"	"	"	20%	.631	54.90
"	"	"	"	30%	.514	44.72

Put another way, if one buys the stock at the present price of \$28 $\frac{1}{2}$, and earnings are, in fact, \$2.90 a share for the year ending April 30, 1970, and

the stock then sells at only 20 times current earnings, then the "return" (excluding dividends) is about 32% a year over the next $2\frac{1}{2}$ years.

We feel the multiple ranges shown in the above table are conservative.

Recommendation

Management has to be the most important consideration when buying almost any company, and this is particularly true when buying a junior industrial. We have interviewed many of the senior people at Systcoms and are very impressed. In our opinion, Systcoms has the administrative and technical competence required to become a very large company.

We have estimated that earnings will rise from 23¢ a share for the fiscal year ended April 30, 1967, to \$2.90 a share in fiscal 1970. These earnings are expected to be achieved primarily as a result of large contracts with some leading North American utilities. At the present price of \$28 $\frac{1}{2}$, the stock is reasonably priced, in our opinion, based on future prospects.

We recommend the stock as a buy for venture accounts seeking above average capital appreciation potential.

R. A. F.

Montreal, P. Q.
October 3, 1967

PRICE

\$100
\$80
\$60
\$50
\$40
\$30
\$20
\$10
\$9
\$8
\$7
\$6
\$5
\$4
\$3
\$2
\$1

INTERNATIONAL SYSTCOMS LIMITED
Approximate price range - weekly
(Over-the-counter market - CANADA)



INTERNATIONAL SYSTCOMS LIMITED

Condensed, Consolidated Profit & Loss Statements

(000's omitted)

Years ended April 30:

	1962	1963	1964	1965	1966	1967 ^A
Sales	\$194	\$422	\$414	\$761	\$1,509	\$3,355
Less: Cost of sales (as reported)	147	314	300	521	1,157	2,678
Operating profit	\$ 47	\$108	\$114	\$240	\$ 352	\$ 677
Less: Selling expenses	\$ 23	\$ 28	\$ 31	\$ 32	\$ 80	\$ 177
Administrative expenses	39	66	63	82	92	272
	\$ 62	\$ 94	\$ 94	\$114	\$ 172	\$ 449
Add: Sundry income - net	(\$ 15)	\$ 14	\$ 20	\$126	\$ 180	\$ 228
Earnings before taxes	22	25	22	24	-	\$ 6
Less: Income taxes	\$ 7	\$ 39	\$ 42	\$150	\$ 180	\$ 234
	-	-	-	-	-	8
Net profit	\$ 7	\$ 39	\$ 42	\$150	\$ 180	\$ 226
Common shares outstanding	522	553	554	945	945	967
Earnings per share	1¢	7¢	8¢	16¢	19¢	23¢

^A Combined to include the accounts of Nichols, "ex" inter-company transactions.

INTERNATIONAL SYSTCOMS LIMITED

Condensed, Consolidated Balance Sheets

(000's omitted)

As at April 30:	1962	1963	1964	1965	1966	1967 [★]
ASSETS:						
Current Assets:						
Cash	\$ -	\$ 24	\$ 1	\$ 46	\$ -	\$ 19
Accounts receivable	41	90	113	173	167	1,005
Inventories	66	121	110	246	340	923
Other	<u>1</u>	<u>-</u>	<u>1</u>	<u>8</u>	<u>15</u>	<u>42</u>
Total current assets	\$108	\$235	\$225	\$473	\$522	\$1,989
Investment in subsidiaries	\$ -	\$ -	\$ 16	\$ 68	\$ 82	\$ 651
Fixed assets - net	26	36	40	45	57	101
Manufacturing licenses & designs	15	15	77	173	242	298
Other	<u>2</u>	<u>2</u>	<u>2</u>	<u>6</u>	<u>60</u>	<u>21</u>
Total Assets	<u>\$151</u>	<u>\$288</u>	<u>\$360</u>	<u>\$765</u>	<u>\$963</u>	<u>\$3,060</u>
LIABILITIES:						
Current Liabilities (total)	215	247	282	424	403	1,338
Debentures & notes payable	5	70	67	86	125	325
Other liabilities	10	2	-	-	-	-
Preferred shares to be issued to creditors of a subsidiary	-	-	-	-	-	911
Shareholders equity:						
Common shares	\$354	\$355	\$355	\$469	\$469	\$ 491
Deficit	(433)	(386)	(344)	(214)	(34)	(4)
Total	<u>\$ (79)</u>	<u>\$ (31)</u>	<u>\$ 11</u>	<u>\$255</u>	<u>\$435</u>	<u>\$ 486</u>
Total Liabilities	<u>\$151</u>	<u>\$288</u>	<u>\$360</u>	<u>\$765</u>	<u>\$963</u>	<u>\$3,060</u>

★ Fully consolidated to include the accounts of Nichols.

